

## Message Text

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SUBJECT: CANADIAN CONTENT ASPECTS OF TIME-READER'S DIGEST TAX  
CHANGES

1. FOLLOWING IS TEXT OF CANADIAN PRESS ARTICLE ENTITLED  
"EIGHTY-PER-CENT DIFFERENCE DEMANDED OF TIME, DIGEST"  
PUBLISHED IN MONTREAL GAZETTE FEBRUARY 22, 1975:  
BEGIN TEXT. THE CANADIAN EDITIONS OF TIME MAGAZINE AND  
READER'S DIGEST WILL HAVE TO BE 80-PERCENT DIFFERENT FROM  
THEIR U.S. PARENT PUBLICATIONS AS WELL AS 75-PERCENT CANADIAN-  
OWNED IF THEY WANT TO BE SURE OF CONTINUED SURVIVAL IN THE  
COUNTRY, REVENUE MINISTER RON BASFORD SAID YESTERDAY.  
BASFORD FOR THE FIRST TIME SPELLED OUT WHAT IS IN EFFECT  
A CANADIAN CONTENT QUOTA FOR THE TWO MAGAZINES WHOSE  
SURVIVAL IS THREATENED BY COMING TAX LEGISLATION.  
HE SAID THAT TIME AND READER'S DIGEST WILL BE JUDGED BY  
THE REVENUE DEPARTMENT AS CANADIAN IF THEY ARE 80-PERCENT  
DIFFERENT IN CONTENT FROM EDITIONS PUBLISHED IN OTHER  
COUNTRIES.  
IF THEY ARE 60-PERCENT DIFFERENT OR LESS THEY WILL BE  
CONSIDERED FOREIGN AND ADVERTISERS WILL NO LONGER BE  
ABLE TO CLAIM TAX DEDUCTIONS FOR ADVERTISING COSTS,  
HE SAID.  
IF EITHER MAGAZINE, OR ANY OF THE FOUR NEWSPAPERS AND  
THREE TRADE PUBLICATIONS ALSO AFFECTED BY THE PROPOSED  
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LEGISLATION, FALLS BETWEEN THE 60- AND 80 PERCENT

LIMITS, RULINGS WILL HAVE TO BE MADE IN EACH SPECIFIC CASE, BASFORD SAID.

HE SAID TAX AUTHORITIES WILL ALSO HAVE TO DECIDE IN EACH CASE WHETHER OR NOT THE PUBLICATION'S NAME AND FORMAT ARE AFFECTED BY THE REQUIREMENTS.

IN ADDITION THE PUBLICATION WILL ALSO HAVE TO MEET OTHER REQUIREMENTS ALREADY SET OUT BY STATE SECRETARY HUGH FAULKNER WHO LAST MONTH ANNOUNCED THE GOVERNMENT'S PLAN TO SEEK REMOVAL OF SPECIAL TAX STATUS FOR TIME AND READER'S DIGEST ADVERTISERS. THESE INCLUDE REQUIREMENTS THAT THE PUBLICATIONS SELL AT LEAST 75 PERCENT OF THEIR SHARES TO CANADIANS AND AGREE NOT TO OPERATE UNDER DIRECT LICENSING ARRANGEMENTS WITH PARENT COMPANIES.

THE LEGISLATION WILL REMOVE SECTIONS OF THE INCOME TAX ACT WHICH EFFECTIVELY MADE TIME, READER'S DIGEST AND THE OTHER SMALLER MAGAZINES AND NEWSPAPERS CANADIAN PUBLICATIONS ALLOWING THEIR ADVERTISERS CLAIM TAX DEDUCTIONS FOR ADVERTISING COSTS.

THE PROPOSED CHNGE WOULD SUBSTANTIALLY INCREASE THE COST OF ADVERTISING IN THE PUBLICATIONS RESULTING IN THE FLOW OF MORE ADVERTISING MONEY INTO ALL-CANADIAN PERIODICALS, FAULKNER SAID. HE SAID THE HOPES THE STEP, TAKEN AT THE URGING OF SOME DOMESTIC PUBLISHERS AND A POWERFUL LOBBY OF NATIONALISTS, WILL LEAD TO THE ESTABLISHMENT OF A CANADIAN WEEKLY NEWS MAGAZINE.

TIME AND READER'S DIGEST EXECUTIVES HAVE MADE OR ARE NEGOTIATING THE SALE OF EQUITY TO CANADIAN INVESTORS BUT NEITHER PUBLICATION IS ANYWHERE NEAR MEETING THE CONTENT REQUIREMENTS.

TIME WITH A DOMESTIC CIRCULATION OF ABOUT 550,000, HAS FOUR-TO-10-PER-CENT CANADIAN CONTENT IN A MAGAZINE OF ABOUT 100 PAGES A WEEK. IT IS A WHOLLY-OWNED SUBSIDIARY OF TIME INC. OF NEW YORK, THOUGH OFFICIALS HAVE SOUNDED OUT CANADIAN INVESTORS ABOUT PURCHASING 75-PERCENT OWNERSHIP.

READER'S DIGEST, WITH A MONTHLY CIRCULATION OF ABOUT 1.5 MILLION IN BOTH ENGLISH AND FRENCH, HAS ABOUT 25-PERCENT CANADIAN CONTENT AND 32-PERCENT CANADIAN OWNERSHIP.

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RALPH HANCOX OF MONTREAL, DIGEST VICE-PRESIDENT, SAID HIS COMPANY WAS NEVER TOLD OF THE 80-PERCENT FORMULA FOR JUDGING WHETHER OR NOT A MAGAZINE IS CANADIAN FOR TAX PURPOSES. IT WILL REQUIRE THOROUGH STUDY BEFORE ANY DECISION IS MADE ON TRYING TO MEET THE REQUIREMENT, HE SAID.

TIME OFFICIALS HAVE SAID THEY WOULD TRY TO MEET THE OWNERSHIP REQUIREMENT BUT COULD NOT ACCEPT ANY FORM

OF CANADIAN CONTENT QUOTA.

TIME OFFICIALS HAVE COMPLAINED THAT THEY CANNOT OBTAIN A CONCISE STATEMENT FROM FAULKNER OF WHAT THEY MUST DO TO QUALIFY AS A CANADIAN PUBLICATION. FAULKNER REFUSED MEETINGS WITH COMPANY EXECUTIVES AND TOLD THEM TO AWAIT THE LEGISLATION, TO BE INTRODUCED SOON, AND TO MAKE THEIR APPEALS WHEN THE BILL GOES BEFORE A PARLIAMENTARY COMMITTEE.

TIME PRESIDENT STEPHEN S. LARUE OF TORONTO HAS SAID THE COMPANY WILL SUSPEND PUBLICATION OF ITS CANADIAN EDITION IF THE ADVERTISER EXEMPTION IS LIFTED NEXT JAN. 1 AS PLANNED. HANCOX SAID READER'S DIGEST HAS MADE NO SUCH DECISION BUT THAT THE COMPANY WILL FACE SERIOUS FINANCIAL LOSSES IF THE TAX PRIVILEGES ARE REMOVED.

EXECUTIVES OF OTHER NON-CANADIAN PUBLICATIONS SAY THEY ARE AWAITING THE LEGISLATION BEFORE DECIDING WHAT TO DO. THESE INCLUDE THREE MEDICAL MAGAZINES, MODERN MEDICINE OF CANADA, M.D. OF CANADA AND MEDICAL ASPECTS OF HUMAN SEXUALITY AND FOUR NEWSPAPERS. THE NEWSPAPERS, THE ADVOCATE OF RED DEER ALTA., AND THREE WEEKLIES PUBLISHED IN THE FRASER VALLEY OF BRITISH COLUMBIA, ARE OWNED BY A BRITISH COMPANY, THE LIVERPOOL POST AND ECHO. END TEXT.

2. COMMENT: ABBREVIATED VERSIONS OF THIS ARTICLE HAVE APPEARED IN OTHER SATURDAY PAPERS AND ON RADIO-TV NEWS. TO OUR KNOWLEDGE THIS IS THE FIRST TIME BASFORD, WHOSE PORTFOLIO GIVES HIM RESPONSIBILITY FOR INTERPRETATION AND ENFORCEMENT OF TAX LAWS, HAS BEEN GIVEN PROMINENT COVERAGE IN SPEAKING ON THE ISSUE. BASFORD'S REMARKS WERE MADE IN AN INTERVIEW WITH THE REPORTER. A SPOKESMAN IN MR. BASFORD'S OFFICE  
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HAS ADVISED THE EMBASSY THAT THERE IS NO TEXT OF HIS REMARKS AND THAT HE WAS SIMPLY REITERATING ESTABLISHED GOC POLICY. THE SPOKESMAN DID SUGGEST THE REPORTING OF THE INTERVIEW MAY HAVE BEEN SOMEWHAT DISTORTED BUT GAVE NO SPECIFICS. IN VIEW CURRENT DESIRE OF U.S. PARENT COMPANIES THAT USG NOT BECOME DIRECTLY INVOLVED EMBASSY DOES NOT REPEAT NOT INTEND TO RAISE MATTER WITH REVENUE CANADA.  
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